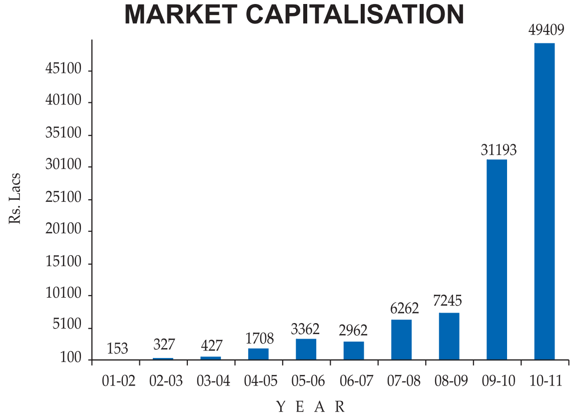
IFB

IFB Industries Limited

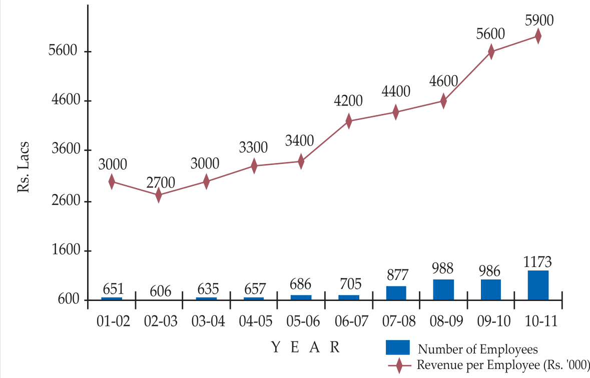
Annual Report 2010-2011

10 YEAR HIGHLIGHTS

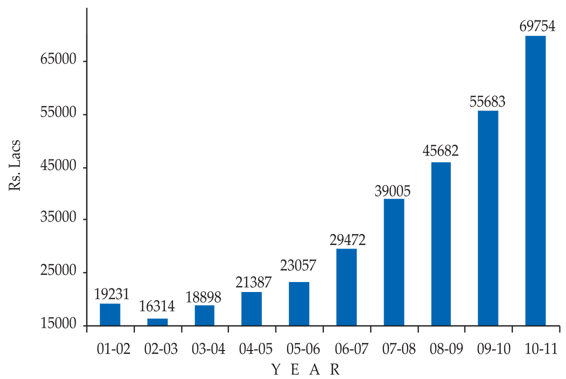
MARKET CAPITALISATION



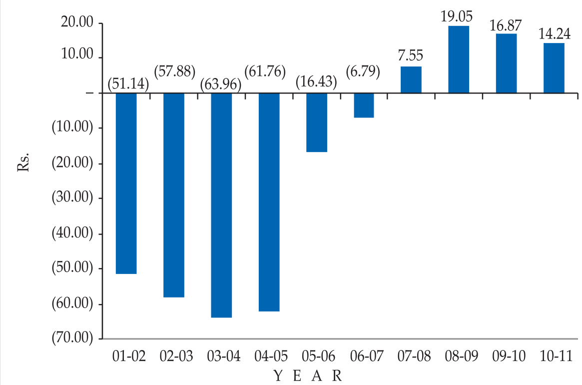
EMPLOYEES AND PRODUCTIVITY



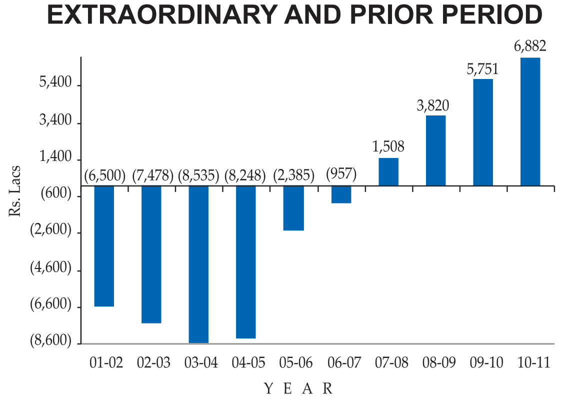
REVENUES



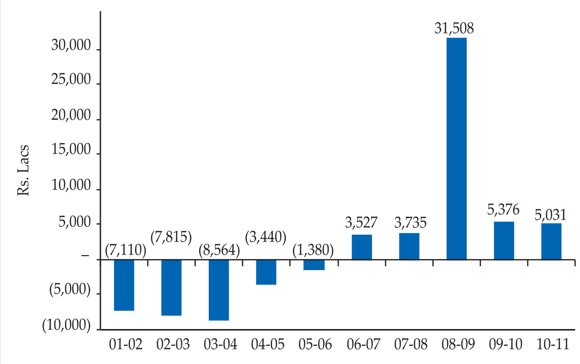
BASIC EPS BEFORE EXTRAORDINARY



PROFIT BEFORE TAX BEFORE EXTRAORDINARY AND PRIOR PERIOD



PROFIT AFTER TAX



BOARD OF DIRECTORS

Executive Chairman
Mr. Bijon Nag

Joint Executive Chairman & Managing Director
Mr. Bikram Nag

Directors
Dr. Rathindra Nath Mitra
Mr. Somen Bal
Mr. Radharaman Bhattacharya
Mr. R. Muralidhar
Mr. K. M. Unnikrishnan

AUDIT COMMITTEE

Chairman
Dr. Rathindra Nath Mitra

Members
Mr. Radharaman Bhattacharya
Mr. Somen Bal

COMPANY SECRETARY

Mr. G. Ray Chowdhury

AUDITORS

Deloitte Haskins & Sells
Chartered Accountants

REGISTRAR AND SHARE TRANSFER AGENTS

CB Management Services (P) Ltd.
P 22, Bondel Road, Kolkata - 700 019
Tel : (091) (33) 2280 6692/93/94, 4011 6700
Fax : (091) (33) 2287 0263
E-mail : rta@cbmsl.com

REGISTERED OFFICE

14, Taratala Road
Kolkata – 700 088
Tel : (091) (33) 3048 9230
Fax : (091) (33) 2401 4182, 2401 4579

CORPORATE OFFICE

Plot No. IND-5, Sector – I
East Kolkata Township
Kolkata – 700 107
Tel : (091) (33) 3984 9524
Fax : (091) (33) 3984 9676
E-mail : ifbi_legal@ifbglobal.com
g_raychowdhury@ifbglobal.com

CONTENTS

IFB

IFB INDUSTRIES LTD.

Regd. Office : 14, Taratolla Road
Kolkata – 700 088

NOTICE

NOTICE is hereby given that the 35th Annual General Meeting of the members of IFB Industries Limited will be held at Eastern Zonal Cultural Centre, IA - 290, Sector III, Bidhannagar, Kolkata - 700 091 on Friday, the 29th day of July, 2011 at 10.00 a.m to transact the following :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet and Profit & Loss Account for the financial year ended 31st March, 2011 and reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Dr. Rathindra Nath Mitra who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. K.M.Unnikrishnan who retires by rotation and being eligible, offers himself for re-appointment
4. To consider and if thought fit, to pass, with or without modification the following resolution as a special resolution :

   "RESOLVED THAT M/s. Deloitte Haskins & Sells (ICAI Registration No. 302009E), Chartered Accountants be and is hereby appointed as Statutory Auditors of the Company from the conclusion of this Annual General Meeting upto the conclusion of the next Annual General Meeting and the Board of Directors be and is hereby authorised to fix their remuneration and out of pocket expenses payable to them."

SPECIAL BUSINESS

5. **To consider and if thought fit, to pass the following resolution, with or without modification(s), as an Ordinary Resolution:**

   "**RESOLVED THAT** the consent of the company be and is hereby granted in terms of Section 293(1)(a) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or reenactment thereof, for the time being in force), to the Board of Directors of the company (hereinafter referred to as the 'Board', which term shall include any committee thereof), to mortgage and/or charge in addition to the mortgages and/or changes created/to be created by the company, in such form and manner and with such ranking as to priority and for such time and on such terms as the Board may determine, all or any of the moveable and/or immoveable, tangible and/or intangible properties of the company, both present and future in favour of Lending Financial Institutions/ Banks/ Bodies Corporate/ Firms/ Foreign Investors or persons, lender(s), agent(s), trustee(s) for securing the borrowings of the company availed/to be availed by way of loan(s) (in foreign currency and/or rupee currency) and securities (compromising fully/partly convertible debentures and/or non-convertible debentures with or without detachable or non detachable warrants and/or secured premium notes and/or floating rates notes/bonds or other debt instruments), commercial papers, issued/to be issued by the company whether in India or abroad term loans/fund based working capital loans/short term loans/temporary loans/letter of credit/guarantees/and to secure any other form of borrowing made from time to time, together with interest at the respective agreed rates, additional interest, compound interest in case of default, accumulated interest, liquidated damages, commitment charges, premia on pre-payment, remuneration of agent(s), trustee(s), premium (if any) on redemption, all other costs, charges and expenses, including any increase as a result of devaluation / revaluation / evaluation / fluctuation in the rates of exchange and all other monies payable by the company in terms of loan agreement(s), head of agreement(s), debenture trust deed or any other document entered into/to be entered into between company and the lender(s)/agent(s)trustee(s), in respect of the said loans/borrowings/debentures and containing such specific terms and conditions and covenants in respect of enforcement of security as may be stipulated in that behalf and agreed to between the Board thereof and the lender(s)/agent(s)/trustee(s).

Registered. Office :
14, Taratala Road
Kolkata - 700 088
Date: 27th May, 2011

By Order of the Board

G Ray Chowdhury
Company Secretary

NOTES :

i) *A member entitled to attend and vote at the meeting is entitled to appoint a proxy, to attend and vote on a poll on his behalf and such a proxy need not be a member of the Company. Proxies in order to be effective must be deposited at the Registered Office or with the Registrars and Share Transfer Agents of the Company, M/s CB Management Services (P) Ltd., not less than 48 hours before the meeting.*

ii) The Registrar of Members of the Company and the Share Transfer Registers shall remain closed on from27th July, 2011 to 29th July, 2011 (both days inclusive).

iii) The members are requested to

a) notify immediately any change in their address to the Company.

b) bring their copy of the Annual Report to the meeting.

c) write to the Company's Registrar & Share Transfer Agents, M/s CB Management Services (P) Ltd enclosing their share certificates for consolidation into one folio for better investor service, if they have more than one folio in identical order of name(s).

iv) Additional information, pursuant to Clause 49 of the Listing Agreement with Stock Exchanges, on Directors recommended by the Board of Directors for appointment/ reappointment at the Annual General Meeting is appearing in the Report and Accounts.

iv) Explanatory Statements under Section 173(2) of the Companies Act, 1956 for resolution nos. 2, 3, 4 & 5 are annexed hereto.

v) The Securities and Exchange Board of India (SEBI) has mandated the submission of Permanent Account Number (PAN) by every participant in securities market. Members holding shares in electronic forn are, therefore, requested to submit the PAN to their Depository Participants with whom they are maintaining their demat accounts. Members a holding shares in Physical form can submit their PAN details to the Company/ Registrars and Transfer Agents M/s C.B.Management Services (Pvt) Ltd.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

Resolution no. 2, 3, 4 & 5

Resolution no. 2 & 3

Details of Directors seeking reappointment in Annual General Meeting (in pursuance of clause 49 of the Listing Agreement)

Name of Director	Dr. Rathindra Nath Mitra	Mr. K. M. Unnikrishnan
Date of birth	06.09.1946	03.06.1945
Nationality	Indian	Indian
Date of Appointment on the board	21.06.2003	21.06.2003
Qualification	Post Graduate & PhD from IIT	B.Com., Diploma in H.R. Management
Experience in functional areas	Business Executive	Business Executive
Shareholding in the Company	Nil	570 nos
List of Directorship held in other Companies	Nil	Nil
Committee Membership	Three	One

Resolution No. 4

As the Company is a widely held Company and its shares are traded on the Stock Exchanges regularly, a part of its share capital is sometimes held by the financial institutions who now routinely invest in the stock market. As this may sometime attract the provisions of Section 224A of the Companies Act, 1956, the Company proposes to appoint the Statutory Auditors by Special Resolution as abundant precaution.

The board recommends passing of this Special Resolution.

None of the Directors is interested/ concerned in the resolution.

Resolution No 5

This is an enabling resolution to obtain power from the Shareholders of the Company u/s 293 (1) (a) of the Companies Act to mortgage and/or charge in addition to the mortgages and/or changes created/to be created by the company, in such form and manner and with such ranking as to priority and for such time and on such terms as the Board may determine, all or any of the moveable and/or immoveable, tangible and/or intangible properties of the company, both present and future in favour of Lending Financial Institutions/ Banks/ Bodies Corporate/ Firms/ Foreign Investors or persons, lender(s), agent(s), trustee(s) for securing the borrowings of the company availed/to be availed by way of loan(s) (in foreign currency and/or rupee currency).

The board recommends passing of this Resolution.

None of the Directors is interested/concerned in the resolution.

Registered. Office :
14, Taratala Road
Kolkata - 700 088
Date: 27th May, 2011

By Order of the Board

G Ray Chowdhury
Company Secretary

Important Communication to Members

The Ministry of Corporate Affairs has taken a " Green Initiative in the Corporate Governance " by allowing paperless compliances by the companies and has issued circulars stating that service of notice/ documents including Annual Report can be sent by e-mail to its members. To support this green initiative of the Government in full measure, members who have not registered their e-mail addresses, so far, are requested to register e-mail addresses, in respect of electronic holdings with the Depository through their concerned Depository Participants. However, those who intend to receive the above documents in physical form, please exercie their option by visiting the Web Page **www.cbmsl.com/green.php** of our Registrars. Members who hold shares in Physical form are also requested to visit Web Page **www.cbmsl.com/green.php** and register their email IDs and also to exercise their option, if they intend to receive the documents in physical form.

DIRECTORS' REPORT to the Shareholders

Dear Shareholders,

Your Directors present the 35th Annual Report and Accounts for the Financial Year ended 31st March, 2011.

1. **FINANCIAL RESULTS :**

(Rs. in thousand)

	For the Year ended 31st March, 2011	For the Year ended 31st March, 2010
Sales and Other Income	6,975,425	5,568,264
Profit Prior to Finance Charges & Depreciation	794,834	664,516
Less :		
Finance charges	2,550	2,574
Depreciation	104,124	86,815
Profit before Taxation	688,160	575,127
Less : Provision for Taxation		
Current Tax	122,320	–
Deferred Tax	62,722	37,483
Profit after Tax	503,118	537,644
Balance brought forward from previous year	(1,201,069)	(1,541,614)
Preference Dividend paid including Dividend Tax	–	37,099
Transfer from General Reserve	–	–
Transfer to capital redemption reserve	–	160,000
Balance carried to Balance Sheet	(697,951)	(1,201,069)

2. **DIVIDEND**

In view of the accumulated loss, the Board regrets its inability to recommend any dividend to equity shareholders for the year.

3. **REVIEW OF OPERATION**

Your Company completed another year of steady performance with strong topline growth and high quality earnings. All business segments posted sound growth in revenues and enhanced their market standing.

Gross Turnover for the year grew by 26.9% to Rs. 772.6 crores. Net Turnover other than service & other income at Rs. 634.9 crores grew by 24.9% driven by higher Engineering business and the continuing steady performance by Appliance business which grew by 25.03%. Engineering Division grew by 24.74%. Pretax Profit increased by 19.6% to Rs. 68.81 crores. Earning Per share for the year stands at Rs. 14.24.

4. **MANAGEMENT DISCUSSION AND ANALYSIS**

A) **Industry Structure & Developments**

The Indian industry witnessed an impressive turnaround during the financial year compared to the previous year.The market recorded a robust growth owing to easing of the overall credit crunch and alleviation of the effects of the global economic downturn. The overall industry grew at a very healthy pace. Renewed investment focus in various industry verticles such as Automobiles, Real Estate, Textiles, Paper, FMCG, F&B, Cement, Metal processing and infrastructure projects also provided an extremely conducive environment.

India is the world's second fastest growing economy and the rapid increase in urbanization and in number of households from 231 mn in 2010 to about 254 mn by 2015 is expected to help Indian home appliances industry to expand from Rs. 229 bn in 2010 to Rs. 397 bn by 2014. The growth is also influenced by rising rural penetration levels of electrical home appliances and their replacement demand. Rising disposable income, boom in real estate & housing, stable prices of household appliances, rising distribution network & availability of financing services are the leading demand drivers for the industry. Changing mindset and lifestyle of consumers and the increasing number of working couples are expected to fuel growth in the industry.

The automobile industry in India has posted a good performance in the last year and one of the sectors that is benefiting from the downstream good effects is the auto ancillary sector that supplies inputs to build automobiles. The auto ancillary industry gets demand from OE (Original Equipment) manufacturers and the replacement market. Rising industrial production, credit and consumer confidence will all lead to a demand for autos and consequently for auto ancillaries.

B) **Opportunities & Threats**

The overall consumer durable industry is expected to grow at a 11%+ CAGR to Rs. 400 bn over the next four years from Rs. 230 bn at present. The growth will be supported by by a higher growth in rural markets. The rising income levels, double-income families, shorter replacement cycle and increasing comsumer awareness are expected to be the key growth drivers for industry volume growth. Washing machine industry sales are expected to reach Rs. 36 bn by 2014 from Rs. 27 bn in 2010 growing at a CAGR of 12% over the same period. Average realisations are expected to improve as volume mix shifts in favour of fully automatic washing machine. Although irregular nature of water supply across both urban and rural regions led to demand being confined largely to semi-automatic models as fully automatic models require continuous supply of running water, the share of fully-automatic machine is expected to go up to 45% by 2014.

Microwave ovens have emerged as the fastest growing category in India's Rs 250 bn consumer durables market. Currently, the market of mocrowave ovens is estimated over 2mn units with LG, Samsung and IFB being the market leaders. Microwaves are witnessing aggressive growth because consumer durables companies are also expanding the sector by launching new products and building awareness. The acceptability of M.W.O is expanding as Indian consumers have started accepting microwave ovens as proper cooking devices rather than just reheating appliances.

According to the Investment Commission of India, India is among the most competitive manufacturers of auto components in the world. India is also becoming a global hub for research and development (R&D). Companies like Daimler Chrysler, Bosch, Suzuki, Johnson Controls etc have set up development centres in India. Many international autocomponent majors including Delphi, Visteon, Bosch and Meritor etc have set up operations in India. Auto manufacturers including GM, Ford, Toyota, etc. as well as auto component manufacturers have set up International Purchasing Offices (IPOs) in India to source for their global operations. In the changed scenario the opportunity for growth of the Company has increased manyfold.

Threats

Increase in rawmaterials price including steel, aluminium, copper etc and exchange rate fluctuations. During 2010-11 input materials cost has increased by 19%.

Reduction in unsecured financing by institutions- Due to non-recovery of some of the disbursed loan, many financing institutions have now started reducing their exposure to such unsecured loans. This alongwith loan at enhanced interest rate may adversly impact the overall volume growth of the consumer durables due to lack of funding options.

Emerging competition from organised retailers –

The organised retailers, recently, have resorted to market their own private labels across all categories including home appliance to counter the impact of increasing competition within organised retail and adverse macroeconomic conditions. Any significant growth of private labels like Koryo, Croma etc could impact the growth of the branded players in the future.

Increase in rawmaterial price, intense competition and threats from competitors in the area of pricing are major causes of concern.

RBI in its financial stability report has exressed concern over the slow down in the economy. Indian corporates are getting whipsawed by high input prices and rising financing costs. While the companies benefited from the early stages of inflation that translated into higher sales and profits, they are now feeling the pinch as the same effect is holding back consumption, and causing higher prices for their inputs. The successive interest rates increases have resulted in slowing down the economy – GDP Growth slipped to a five quarter low of 7.8% during January-March quarter.

C) Segment wise performance

The Home Appliance Division has improved its turnover and profitability as compared to last year. The profitability of the division has grown due to growth in volume and value. Introduction of new models in washing machine and microwave oven category at competitive prices has enabled good growth. Washing machine sale in value term for the year recorded a growth of 24.25% over last year. Out of which front loader washing machine sale has grown by 23% and top loaders has grown by 36% over last year. Microwave oven sales in value term recorded a growth of 31% over last year. However, the growth and momentum of microwave oven business was largely hit due to non-availability of product. At present all the manufacturers are facing a serious crisis with respect to increase in labour cost and capacity issues coupled with RMB appreciation.

Contribution percentage has marginally reduced due to increase in material cost, increase in scheme cost and lower increase in service income.

The company has entered the commercial laundry equipment business & has launched the same pan India. Enquiry of this segment has been encouraging and the company expects moderate sales from this category going forward. The Company has also entered kitchen appliances and modular kitchen business.

Though the Engineering Division recorded growth in sales but profitability of the division reduced substantially and is largely due to increase in material cost, ancillary cost, repair cost etc. To revamp and increase its capacity the company took the plan to modernise its tool room at Bangalore; add new fine blanking presses as well as modernize the old ones. In the financial year under review the company installed one no press at Bangalore and modernised tool room at Bangalore. The company is negotiating with customers to recover material cost overrun and is hopeful to recover atleast part of them.

D) Outlook

The overall economic outlook seems to be favourable for recovery in the global economic environment and the Indian economy is also poised to grow. According to most indications, industrial growth will be over 15% and the GDP growth will be over 8%. The automobile sector led by passenger cars should grow in the range of 12-15%.

With the expected GDP growth, we expect Appliances growth in our product categories to be robust and thus we would expect 20%+ sales growth. Our focus would be to improve our service function as well as to invest in technology for better performance. We have implemented SAP and this will help us to bring down inventory as well as to react faster to market needs apart from bringing about other improvements. Our focus would also be to improve our distribution channel by penetrating deeper into smaller towns.

We have already completed our expansion-cum-modernization of our washing machine factory at Goa. This expansion would ensure state-of-the-art new generation washing machines of higher capacities and the excess capacity we would use to market for OEM sales through buyers in Europe, Africa, Asian countries, etc. However launch of our new models were delayed due to last minute vendor issues- thus launch was delayed by eight months.

We would also like to strengthen our direct sales channel as well as our customer retention programs in order to sell more IFB products to the same customer leading to more business per customer on a recurring basis due to recurring service income via AMC's as well as sale of additives, etc.

To compete with our competitors and to offer high quality products to our customers, the company is modernising its R&D Lab at Goa. Civil work has already been completed. Equipment commissioning and completion of the seating area plus the training centre are likely to be completed by Q1 2011-12.

IFB has invested in its Fine Blanking operations in order to meet the growing demands of the Indian automobile industry. However, we have also de-risked by marketing our fine blanked products to other industries which are also high growth. We are focusing on domestic demand and have built up capacities to meet the same. We will look at exports at a later date as the long working capital cycle is not suitable for us.

We have invested in modernizing our Tool Room to international standards and we will add new fine blanking presses as well as modernize the old ones. This jump in investments will, we hope, ensure doubling of our sales by 31st March, 2013.

Liquidity position of the Company was comfortable and the company remain debt free. Company remained focussed on its working capital management. Interest & dividend income from placement of temporary surplus funds with mutual funds increased on account of higher surplus fund and increase in interest rates to Rs 19689 thousands compared to Rs 15938 thousands at the end of previous year. As in the past, the Company has maintained excellent relationship with its bankers and was able to avail and negotiate favourable terms for various banking facilities.

E) Concerns

Our concern in the Fine Blanking business is pressure on prices from customers' end as well as pressure of higher material costs due to upward revision of commodity prices from time-to-time.

Over and above frequent rawmaterial price increase, our major concern in Appliances is threat from competitors in the area of pricing apart from HR challenges which is, however, a concern of every growing company.

To overcome the same, we have substantially increased our investment in training and we hope to increase the same further as well as bring in better HR practices in order to reduce attrition. We, however, feel that at the Senior Management level, more face-to-face contacts with others working in IFB and solving their problems will lead to lowering of the attrition rate.

F) Internal Control Systems and their adequacy

The Company has adequate system of internal controls and checks and balances to ensure that its assets are safeguarded and protected against loss from unauthorized use. The strength of these systems is continuously being monitored by inhouse internal auditors & also by PWC and the findings of these audits are reported to the Audit Committee of the Board and also to the Board of Directors. The adequacy of the internal control system has also been examined by the statutory auditors.

G) Human Resources

IFB is a knowledge-driven organization and its greatest asset is the experience and skill of its employees. Recognizing that the workforce will provide critical competitive edge in its growth endeavor, IFB has laid major emphasis on acquiring, maintaining and developing its human asset base. We offer wide range of career development programs including on the job training, job rotation etc. Our belief is that by investing in these programs we will have a highly motivated work force. Due to changes in H.R Policy the attrition rate of the executives of the company has been reduced to minimum.

As a result of focused attention the employees at all levels have actively participated in the effort to sustain and improve the performance of the Company even in the most difficult times. The Company had 1173 nos. employees at the end of March 2011. As in the past, industrial relations continued to remain cordial at all locations in the Company.

H) Risk Management

The Company is exposed to several risks. They can be categorised as operational risks and strategic risks . Some of the major risks in each category are described below. There are other risks that could have a material effect on the Company's performance and financial position. The Company has taken several mitigating actions, applied many strategies and introduced control and reporting systems to reduce and mitigate these risks.

Operational Risks

Environmental issue

The company has no pending material environment related issues. Since most of the Company's manufacturing process consist of the assembly of components, the environmental impact from the company's plants are remote.

However, environmental requirements are complex and tend to become more stringent with time & the Company will constantly innovate to keep up with requirements as per law.

Product warranty and recalls

It has become almost mandatory to incorporate such clause in International contracts. However, the Company has so far not accepted any contract with such draconian clause but in the event the company accepts contracts with such clause, the company is exposed to product liability and warranty clause in the event our product fails to perform as expected. A recall claim or a product liability claim brought against the Company in excess of the Company's coverage may have a material adverse effect on the Company's business.

Strategic Risks

Dependence on supplier

The company largely depends on vendors in order to meet its delivery commitments. Consequently, there is a risk that disruption in supply chain could lead to the company not being able to meet its delivery commitments and as a consequence to incur extra costs. The Company's strategy is to reduce this risk by maintaining multiple suppliers in all significant component areas .

Patent & Proprietary Technology

The Company's strategy is to protect its innovations with patents and to vigorously defend its trademarks and knowhow against infringements and unauthorized use. There can be no assurance that any patent now owned by the company will have protection against competitor that develop similar technology.